Notes to Consolidated Financial Statements

Years Ended March 31, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under Japanese GAAP and has been renamed "the consolidated statement of changes in equity" in the current fiscal year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2006 financial statements to conform to the classifications and presentations used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Yamato Holdings Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118.05 to $1, the approximate rate of exchange at March 31, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 37 significant (50 in 2006) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The remaining non-consolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant to the consolidated financial statements, have not been consolidated with the Company.

There were no affiliates accounted for by the equity method in 2007 or 2006.

Investments in the remaining non-consolidated subsidiaries and affiliates are stated at cost less a valuation allowance representing possible losses on the investments that are deemed to be other than temporary. If the equity method of accounting had been applied to the investments in such companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the costs over the underlying net equity of investments in consolidated subsidiaries is recognized as goodwill and amortized on a straight-line basis over a five-year period, with the exception of minor amounts which are charged or credited to income in the period of acquisition.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Recognition of Operating Revenues—The Group recognizes freight charge income as operating revenues at the time when freight has been received from the shipping customer for transportation.

The Group also records installment sales receivables, which include principal and fees from customers, after the Group has accepted the relevant contracts which are referred to the Group by participating member stores. Fees from customers and member stores were generally recognized in equal installment over the lives of each respective contract.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

The difference between cash and time deposits in the accompanying consolidated balance sheets and cash and cash equivalents in the accompanying consolidated statements of cash flows is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Cash	**¥130,157**	¥125,511	**$1,102,557**
Time deposits due beyond three months	**(6)**	(7)	**(50)**
Bank overdraft included in cash	**(6)**		**(49)**
Cash and cash equivalents	**¥130,145**	¥125,504	**$1,102,458**

d. Inventories—Inventories which mainly consist of supplies are stated at cost as determined by the first-in, first-out method.

e. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in near term are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The Group has no trading securities at March 31, 2007 and 2006, respectively.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to the buildings acquired after April 1, 1998. The depreciation of property, plant and equipment of foreign consolidated subsidiaries is computed on the straight-line method over the estimated useful lives of the assets. The range of useful lives is principally as follows:

Buildings and structures	7–60 years
Vehicles	2– 7 years
Machinery and equipment	2–20 years

Maintenance and repairs including minor renewals and improvements are charged to income as incurred.

g. Long-lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. Other Assets—Amortization of intangible assets is computed on the straight-line method.

Bond issuance costs are deferred as other assets and amortized on the straight-line method over a repayment method.

i. Retirement and Pension Plan—The Company and substantially most domestic certain consolidated subsidiaries have a contributory trusteed pension plan and an unfunded retirement benefit plan. In addition, a defined contribution retirement plan was newly introduced on December 1, 2006. Certain domestic consolidated subsidiary participates a cooperative welfare pension fund as a substitution for the aforementioned contributory trusteed pension plan. The foreign subsidiaries have respective defined contribution retirement plans.

Directors and corporate auditors are not covered by the retirement and pension plans described above. Benefits paid to such persons are charged to income as paid. Any amounts payable to directors and corporate auditors upon retirement are subject to the approval of the shareholders.

j. Retirement Allowances for Directors and Corporate Auditors—Retirement allowances for directors and corporate auditors for certain subsidiaries are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

k. Presentation of Equity—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include minority interests. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

l. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

***m. Bonuses to Directors and Corporate Auditors*—**Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force ("PITF") No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥58 million ($498 thousand).

***n. Income Taxes*—**The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

***o. Appropriations of Retained Earnings*—**Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

***p. Foreign Currency Transactions*—**All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

***q. Derivative Financial Instruments*—**Certain consolidated subsidiaries use derivative financial instruments to manage their exposures to fluctuations in interest rates. Interest rate swaps are utilized by the consolidated subsidiaries to reduce interest rate risks. The consolidated subsidiaries do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

***r. Foreign Currency Financial Statements*—**The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date.

***s. Per Share Information*—**Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

t. New Accounting Pronouncements

Measurement of Inventories

Under Japanese GAAP, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. NOTES AND ACCOUNTS RECEIVABLE

Sales recorded on the installment basis were 1.0% and 1.1% of net sales in 2007 and 2006, respectively.

Annual maturities of notes and accounts receivable—installment at March 31, 2007 and related amortization of deferred profit on installment sales are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Receivables	Deferred Profit on Installment Sales	Receivables	Deferred Profit on Installment Sales
2008	¥ 50,162	¥ 8,703	$424,918	$ 73,722
2009	27,363	5,974	231,796	50,603
2010	14,699	3,539	124,515	29,979
2011	7,078	1,868	59,954	15,822
2012	3,059	835	25,917	7,075
2013 and thereafter	1,058	314	8,963	2,665
Total	¥103,419	¥21,233	$876,063	$179,866

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Current:			
Government and corporate bonds	**¥ 4,000**		**$ 33,885**
Other		¥ 891	
Total	**¥ 4,000**	¥ 891	**$ 33,885**
Non-current:			
Marketable equity securities	**¥42,161**	¥33,918	**$357,150**
Non-marketable equity securities	**3,014**	2,039	**25,531**
Other	**11,210**	10,348	**94,959**
Total	**¥56,385**	¥46,305	**$477,640**

Information regarding each category of the securities classified as available-for-sale and held-to-maturity at March 31, 2007 and 2006 was as follows:

	Millions of Yen			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥23,131**	**¥19,388**	**¥358**	**¥42,161**
Other	**10,025**	**28**		**10,053**
Held-to-maturity	**4,000**		**6**	**3,994**

	Millions of Yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,121	¥20,799	¥ 2	¥33,918
Other	5,010	1		5,011
Held-to-maturity	4,891		20	4,871

	Thousands of U.S. Dollars			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$195,942**	**$164,237**	**$3,029**	**$357,150**
Other	**84,924**	**233**		**85,157**
Held-to-maturity	**33,885**		**54**	**33,831**

The majority of available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥3,014**	¥2,039	**$25,531**
Preferred shares	**1,000**	1,000	**8,471**

Proceeds from the sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥34 million ($286 thousand) and ¥265 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥19 million ($162 thousand) and ¥45 million for the years ended March 31, 2007 and 2006, respectively.

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Held to Maturity	Held to Maturity
Due in one year or less	**¥4,000**	**$33,885**

5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the years ended March 31, 2007 and 2006 and, as a result, recognized an impairment loss of ¥1,127 million ($9,550 thousand) as other expense for the asset groups of the Akita Regional Branch of Yamato Transport Co., Ltd. and another three regional branches for the year ended March 31, 2007, and ¥2,177 million as other expense for the asset groups of the Kyoto Branch of Kyoto Yamato Co., Ltd. and another six regional branches for the year ended March 31, 2006, respectively, due to continuous operating losses of those units. The carrying amounts of the relevant asset groups were written down to the recoverable amounts. In the case where net selling prices were used as recoverable amounts, relevant buildings were evaluated based on assessed value of fixed assets, and relevant lands were evaluated based on posted land price.

6. BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2007 and 2006 consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the bank loans ranged from 0.048% to 1.680% and 0.570% to 1.680% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	**2007**
1.340% to 2.295% loans from a Japanese bank due 2007 to 2012	**¥43,820**	¥39,500	**$371,199**
Unsecured 1.05% bonds due in December 2007	**2,000**	2,000	**16,942**
Unsecured 1.59% bonds due in November 2010	**5,000**		**42,355**
Unsecured 1.2% convertible debentures, convertible into common stock at ¥1,211.80 per share, due in September 2009	**13,087**	13,369	**110,860**
Total	**63,907**	54,869	**541,356**
Less current portion	**(3,180)**	(680)	**(26,938)**
Total	**¥60,727**	¥54,189	**$514,418**

Annual maturities of long-term debt at March 31, 2007 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	**¥ 3,180**	**$ 26,938**
2009	**15,180**	**128,589**
2010	**35,007**	**296,544**
2011	**5,180**	**43,880**
2012	**5,180**	**43,880**
2013 and thereafter	**180**	**1,525**
Total	**¥63,907**	**$541,356**

At March 31, 2007, land with carrying amount of ¥209 million ($1,772 thousand) was pledged as collateral for short-term bank loans of ¥13 million ($110 thousand). Investment securities with a carrying amount of ¥12 million ($104 thousand) were deposited as security for dealings at March 31, 2007.

Convertible debentures of the Company at March 31, 2007, were convertible into 10,800 thousand shares of common stock of the Company. The conversion prices are subject to adjustments to reflect stock splits and certain other events.

7. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of government bonds, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from the consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The retirement benefits for directors and corporate auditors are not included in aforementioned plans, which are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 78,942	¥ 76,037	$ 668,720
Fair value of plan assets	(60,775)	(56,319)	(514,827)
Unrecognized actuarial gain	7,751	3,067	65,658
Prepaid pension cost	30	34	257
Net liability	¥ 25,948	¥ 22,819	$ 219,808

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 4,352	¥ 4,929	$36,864
Interest cost	1,506	1,620	12,760
Expected return on plan assets	(1,114)	917	(9,440)
Recognized actuarial loss	3,373	7,393	28,578
Net periodic benefit costs	¥ 8,117	¥14,859	$68,762

Assumptions used for the years ended March 31, 2007 and 2006 are set forth as follows:

	2007	2006
Discount rate	2.0%	2.0 %
Expected rate of return on plan assets	2.0%	(2.0)%
Amortization period of prior service cost	1 year	1 year
Recognition period of actuarial gain/loss	5 years	5 years

The estimated amount of pension assets calculated by the contribution ratio for the cooperative welfare pension fund is ¥663 million ($5,613 thousand) and ¥797 million for the years ended March 31, 2007 and 2006, respectively.

8. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity.

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Deferred tax assets:			
Current:			
Accrued expenses	¥ 10,771	¥ 10,643	$ 91,245
Enterprise tax	2,253	2,126	19,083
Allowance for doubtful accounts	1,472	1,495	12,470
Legal welfare expense	1,452	1,409	12,305
Other	1,551	1,835	13,136
Less valuation allowance			(3)
Deferred tax assets—current	¥ 17,499	¥ 17,508	$ 148,236
Non-current:			
Liability for employees' retirement benefits	¥ 10,290	¥ 9,072	$ 87,165
Investment securities	2,702	2,692	22,892
Investment in and advances to non-consolidated subsidiaries and affiliates	197	196	1,672
Loss on devaluation of land	27,182	26,598	230,253
Loss on impairment of long-lived assets	3,265	2,797	27,661
Loss on devaluation of telephone subscription rights	604	603	5,115
Unrealized profit	698	678	5,915
Other	1,631	980	13,813
Less valuation allowance	(32,303)	(28,546)	(273,640)
Deferred tax assets—non-current	¥ 14,266	¥ 15,070	$ 120,846
Deferred tax liabilities:			
Current—other	¥ 47	¥ 41	$ 400
Deferred tax liabilities—current	¥ 47	¥ 41	$ 400
Non-current:			
Unrealized gain on available-for-sale securities	¥ 5,421	¥ 8,335	$ 45,920
Other	528	548	4,479
Deferred tax liabilities—non-current	¥ 5,949	¥ 8,883	$ 50,399
Deferred tax assets—net	¥ 25,769	¥ 23,654	$ 218,283

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	40.0%	40.0%
Per capita levy of local taxes	3.5	28.4
Valuation allowance	4.2	322.2
Other—net	0.9	15.0
Actual effective tax rate	48.6%	405.6%

10. LEASES

(1) Lessee

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥4,413 million ($37,382 thousand) and ¥4,022 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss and obligations under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 was as follows:

	Millions of Yen				
	2007				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	**¥99**	**¥503**	**¥19,501**	**¥681**	**¥20,784**
Accumulated depreciation	**44**	**146**	**7,869**	**207**	**8,266**
Net leased property	**¥55**	**¥357**	**¥11,632**	**¥474**	**¥12,518**

	Thousands of U.S. Dollars				
	2007				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	**$843**	**$4,257**	**$165,194**	**$5,767**	**$176,061**
Accumulated depreciation	**376**	**1,233**	**66,661**	**1,747**	**70,017**
Net leased property	**$467**	**$3,024**	**$ 98,533**	**$4,020**	**$106,044**

	Millions of Yen				
	2006				
	Buildings and Structures	Vehicles	Machinery and Equipment	Other Assets	Total
Acquisition cost	¥99	¥386	¥19,438	¥508	¥20,431
Accumulated depreciation	33	136	7,275	137	7,581
Net leased property	¥66	¥250	¥12,163	¥371	¥12,850

Obligations under finance leases which included the imputed interest expense portion, and noncancelable operating leases as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2007		**2007**	
	Finance Lease	Operating Lease	Finance Lease	Operating Lease
Due within one year	**¥ 4,149**	**¥ 528**	**$ 35,146**	**$4,472**
Due after one year	**8,369**	**586**	**70,898**	**4,966**
Total	**¥12,518**	**¥1,114**	**$106,044**	**$9,438**

	Millions of Yen	
	2006	
	Finance Lease	Operating Lease
Due within one year	¥ 4,026	¥ 591
Due after one year	8,824	1,084
Total	¥12,850	¥1,675

(2) Lessor

Acquisition cost, accumulated depreciation, accumulated impairment loss and net book value of leasing property as of March 31, 2007 concerning the finance leases are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	**2007**
	Leasing Property	Leasing Property
Acquisition cost	**¥27,358**	**$231,751**
Accumulated depreciation	**10,725**	**90,853**
Net leasing property	**¥16,633**	**$140,898**

Future lease payments to be received on finance leases as of March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	**2007**
Due within one year	**¥ 5,891**	**$ 49,901**
Due after one year	**12,092**	**102,431**
Total	**¥17,983**	**$152,332**

Lease income, depreciation and interest income as of March 31, 2007 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2007	**2007**
Lease income	**¥5,204**	**$44,079**
Depreciation	**4,746**	**40,203**
Interest income	**748**	**6,334**

11. CONTINGENT LIABILITIES

Contingent liabilities for guarantees and items of a similar nature at March 31, 2007 amounted to ¥92 million ($781 thousand) representing guarantees of loans of an unaffiliated company jointly and severally by the Company and 18 other unaffiliated companies and ¥141 million ($1,197 thousand) as guarantees of loans of a non-consolidated subsidiary.

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2007 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2007	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	**¥33,813**	**447,350**	**¥75.59**	**$0.64**
Effect of dilutive securities—Convertible bonds	**99**	**10,909**		
Diluted EPS—Net income for computation	**¥33,912**	**458,259**	**¥74.00**	**$0.63**

Diluted net income per share for the year ended March 31, 2006 is not disclosed because of the Company's net loss position.

13. SEGMENT INFORMATION

Information about industry segments, geographic segments and operating revenues to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2007 and 2006 is as follows:

(1) Industry Segments

	Millions of Yen							
	2007							
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Other	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:								
Operating revenues to customers	**¥934,607**	**¥ 91,392**	**¥44,983**	**¥30,714**	**¥ 48,430**	**¥11,442**		**¥1,161,568**
Intersegment operating revenues	**36,123**	**12,644**	**14,028**	**17,132**	**6,666**	**77,650**	**¥(164,243)**	
Total operating revenues	**970,730**	**104,036**	**59,011**	**47,846**	**55,096**	**89,092**	**(164,243)**	**1,161,568**
Operating costs and expenses	**927,428**	**100,241**	**57,664**	**42,817**	**46,047**	**52,564**	**(132,354)**	**1,094,407**
Operating income	**¥ 43,302**	**¥ 3,795**	**¥ 1,347**	**¥ 5,029**	**¥ 9,049**	**¥36,528**	**¥ (31,889)**	**¥ 67,161**
b. Assets, depreciation and capital expenditures:								
Assets	**¥457,672**	**¥ 46,935**	**¥15,623**	**¥24,529**	**¥211,861**	**¥19,711**	**¥ 53,390**	**¥ 829,721**
Depreciation	**28,059**	**1,025**	**500**	**1,150**	**8,605**	**777**	**34**	**40,150**
Capital expenditures	**33,132**	**1,507**	**408**	**605**	**11,773**	**1,408**	**48**	**48,881**

	Thousands of U.S. Dollars							
	2007							
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Other	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:								
Operating revenues to customers	**$7,917,045**	**$774,182**	**$381,047**	**$260,174**	**$ 410,252**	**$ 96,924**		**$9,839,624**
Intersegment operating revenues	**305,995**	**107,102**	**118,836**	**145,132**	**56,462**	**657,773**	**$(1,391,300)**	
Total operating revenues	**8,223,040**	**881,284**	**499,883**	**405,306**	**466,714**	**754,697**	**(1,391,300)**	**9,839,624**
Operating costs and expenses	**7,856,232**	**849,141**	**488,470**	**362,703**	**390,057**	**445,271**	**(1,121,170)**	**9,270,704**
Operating income	**$ 366,808**	**$ 32,143**	**$ 11,413**	**$ 42,603**	**$ 76,657**	**$309,426**	**$ (270,130)**	**$ 568,920**
b. Assets, depreciation and capital expenditures:								
Assets	**$3,876,936**	**$397,585**	**$132,340**	**$207,784**	**$1,794,669**	**$166,976**	**$ 452,266**	**$7,028,556**
Depreciation	**237,689**	**8,682**	**4,237**	**9,746**	**72,892**	**6,579**	**284**	**340,109**
Capital expenditures	**280,664**	**12,761**	**3,459**	**5,128**	**99,725**	**11,923**	**411**	**414,071**

The Group has changed its segmentation method from the year ended March 31, 2007. The reclassified segment information by the revised segmentation method for the year ended March 31, 2006 is as follows:

	Millions of Yen							
	2006							
	Delivery	BIZ-Logistics	Home Convenience	e-Business	Financial	Other	Eliminations or Corporate	Consolidated
a. Operating revenues and operating income:								
Operating revenues to customers	¥908,228	¥111,487	¥44,499	¥27,983	¥ 45,040	¥ 7,724		¥1,144,961
Intersegment operating revenues	31,151	13,401	15,524	16,616	6,597	38,167	¥(121,456)	
Total operating revenues	939,379	124,888	60,023	44,599	51,637	45,891	(121,456)	1,144,961
Operating costs and expenses	892,469	120,852	59,642	40,987	42,018	44,330	(124,058)	1,076,240
Operating income	¥ 46,910	¥ 4,036	¥ 381	¥ 3,612	¥ 9,619	¥ 1,561	¥ 2,602	¥ 68,721
b. Assets, depreciation and capital expenditures:								
Assets	¥424,894	¥ 49,808	¥16,840	¥23,262	¥222,793	¥19,791	¥ 35,834	¥ 793,222
Depreciation	24,043	1,017	530	1,131	7,579	701	2	35,003
Capital expenditures	32,539	1,539	381	1,465	11,825	1,086	30	48,865

Notes:
- Delivery: Small-parcel delivery services such as Takkyubin (door-to-door parcel delivery) and Kuroneko Mail
- BIZ-Logistics: Intercompany logistics services, aimed at the B2B supply-chain management market
- Home Convenience: Lifestyle support services intimately connected with the needs of local markets, such as moving and home cleaning services
- e-Business: Information services targeted at the business market, including ASP services and the development of information systems
- Financial: Financial services targeted at business customers and consumers, such as settlement and collection
- Other: Group support service and shared service centering on vehicle maintenance, mainline transport, and staffing services

(2) Geographic Segments
The geographic segments of the Company and consolidated subsidiaries for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen					
	2007					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,136,854	¥13,932	¥3,373	¥ 7,409		¥1,161,568
Interarea	5,472	3,458	1,636	4,353	¥(14,919)	
Total operating revenues	1,142,326	17,390	5,009	11,762	(14,919)	1,161,568
Operating costs and expenses	1,075,480	16,914	5,164	11,579	(14,730)	1,094,407
Operating income (loss)	¥ 66,846	¥ 476	¥ (155)	¥ 183	¥ (189)	¥ 67,161
Assets	¥ 741,225	¥ 3,320	¥1,523	¥ 4,930	¥ 78,723	¥ 829,721

	Thousands of U.S. Dollars					
	2007					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	$9,630,272	$118,019	$28,573	$62,760		$9,839,624
Interarea	46,359	29,294	13,858	36,873	$(126,384)	
Total operating revenues	9,676,631	147,313	42,431	99,633	(126,384)	9,839,624
Operating costs and expenses	9,110,378	143,284	43,744	98,082	(124,784)	9,270,704
Operating income (loss)	$ 566,253	$ 4,029	$ (1,313)	$ 1,551	$ (1,600)	$ 568,920
Assets	$6,278,904	$ 28,125	$12,905	$41,760	$ 666,862	$7,028,556

	Millions of Yen					
	2006					
	Japan	U.S.A.	Europe	Asia	Eliminations or Corporate	Consolidated
Operating revenues:						
Outside customers	¥1,120,372	¥14,292	¥3,324	¥6,973		¥1,144,961
Interarea	5,047	3,352	1,444	2,664	¥ (12,507)	
Total operating revenues	1,125,419	17,644	4,768	9,637	(12,507)	1,144,961
Operating costs and expenses	1,056,925	17,306	4,976	9,540	(12,507)	1,076,240
Operating income (loss)	¥ 68,494	¥ 338	¥ (208)	¥ 97		¥ 68,721
Assets	¥ 665,639	¥ 3,247	¥1,426	¥4,196	¥118,714	¥ 793,222

Operating revenues and assets are summarized by geographic area based on the countries where subsidiaries are located.

(3) Operating Revenues to Foreign Customers
Operating revenues to foreign customers for the years ended March 31, 2007 and 2006 amounted to ¥26,243 million ($222,304 thousand) and ¥27,078 million, respectively.

14. SUBSEQUENT EVENTS

a. Acquisition of the Delivery Business from Marui Co., Ltd.
On May 21, 2007, the Company entered into a memorandum of understanding with Marui Co., Ltd. ("Marui") in which it is stated that the Group will acquire the delivery business (which is wholly owned by Marui).

The outline scheme of this transaction is as follows:

Dividing entity	— Moving Co., Ltd. (a wholly owned subsidiary of Marui)
Successor entity	— Yamato Home Convenience Co., Ltd. (a wholly owned subsidiary of the Company)
Succeeding business	— Delivery, installation of appliance and moving service
Amount of succeeding assets and liabilities	— To be settled as estimated fair value at effective date of the divestiture
Proposed effective date of the divestiture	— September 1, 2007

b. Appropriations of Retained Earnings
The following appropriations of retained earnings at March 31, 2007 were approved at the Company's shareholders meeting held on June 27, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.00 ($0.08) per share	¥4,428	$37,507